

Worksheet

Comparing Regressive, Progressive, and Proportional Taxes

Theme 3: Fairness in Taxes
Lesson 5: How Taxes Affect Us

Key Terms

progressive tax—A tax that takes a larger percentage of income from high-income groups than from low-income groups.

proportional tax—A tax that takes the same percentage of income from all income groups.

regressive tax—A tax that takes a larger percentage of income from low-income groups than from high-income groups.

vertical equity—The concept that people in different income groups should pay different rates of taxes or different percentages of their incomes as taxes. “Unequals should be taxed unequally.”

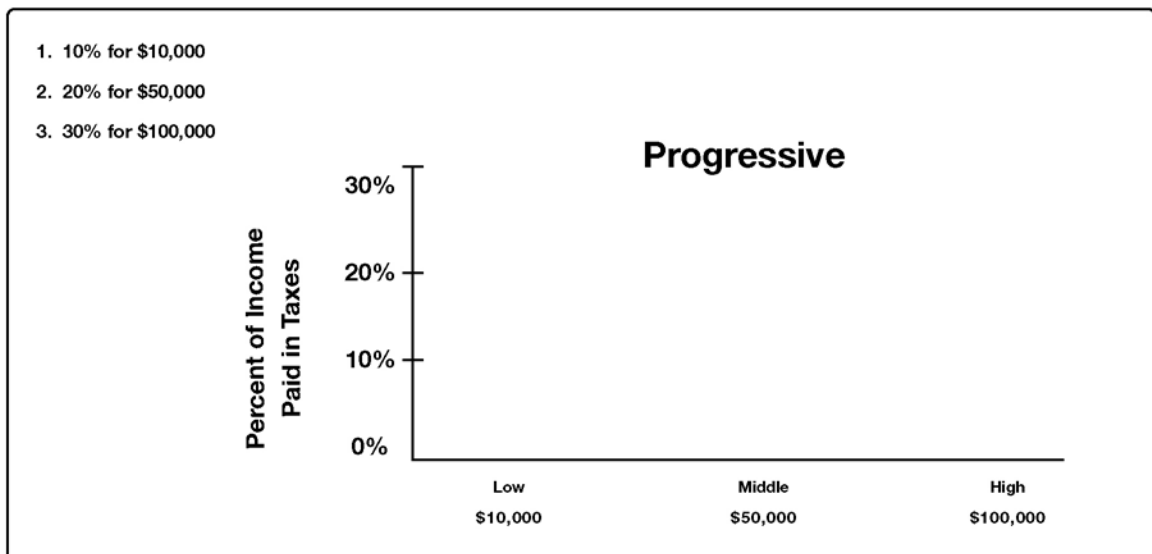
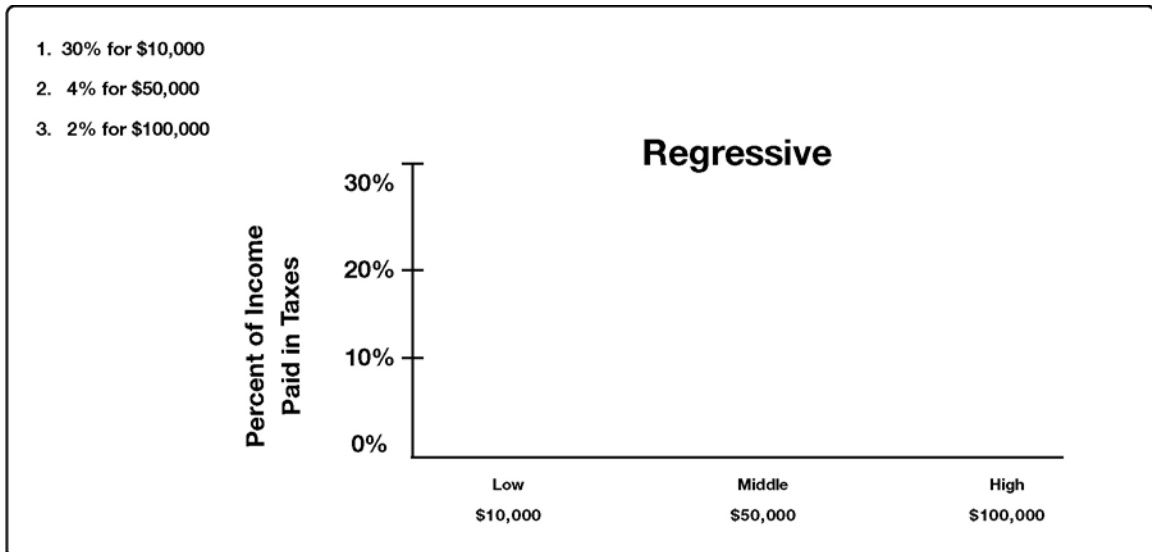
Summary

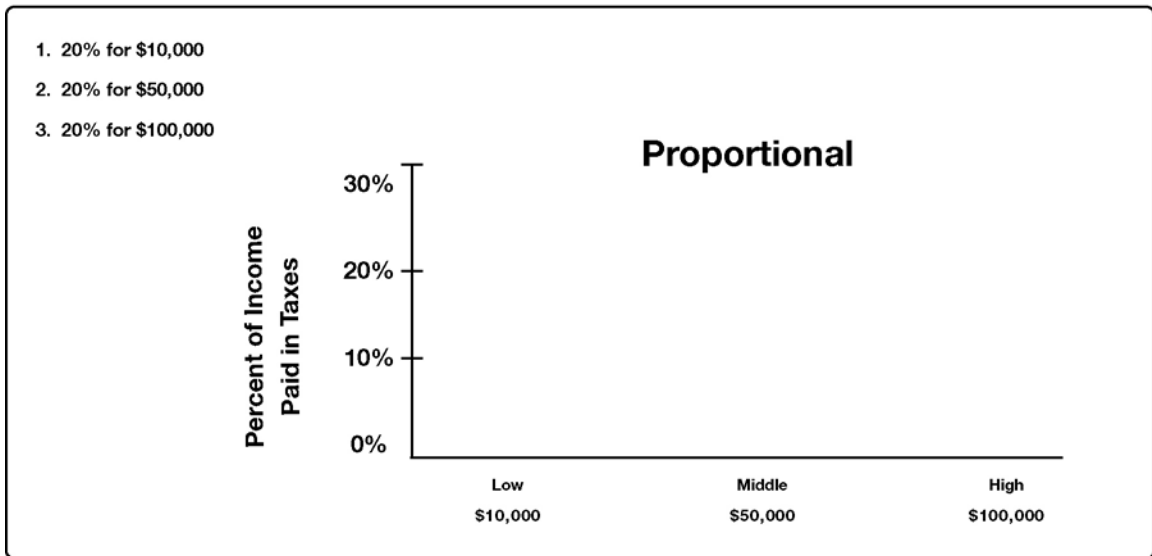
In the United States there are **progressive** income taxes and **regressive** Social Security and property taxes. Excise taxes and user fees are somewhat regressive. This combination results in taxpayers paying roughly the same percentage of their incomes in taxes, creating a **proportional** system. **Vertical equity** is the concept that people in different income groups should pay different rates of taxes.

Activity 1

Complete the line graphs to compare how a regressive tax, a progressive tax, and a proportional tax affect different income groups.

1. Plot the curve on the graphs by joining the dots.





2. According to the tables below, what amount of tax would people in each tax system pay?

Write the amounts over each dot on the line graphs.

REGRESSIVE TAX			
	Income	Percentage of Income Paid in Tax	Amount of Tax
Family A	\$10,000	20%	\$2,000
Family B	\$50,000	4%	\$2,000
Family C	\$100,000	2%	\$2,000

PROGRESSIVE TAX			
	Income	Percentage of Income Paid in Tax	Amount of Tax
Family A	\$10,000	10%	\$1,000
Family B	\$50,000	20%	\$10,000
Family C	\$100,000	30%	\$30,000

PROPORTIONAL TAX			
	Income	Percentage of Income Paid in Tax	Amount of Tax
Family A	\$10,000	20%	\$2,000
Family B	\$50,000	20%	\$10,000
Family C	\$100,000	20%	\$20,000

Activity 2



1. Is the state gasoline tax regressive, progressive, or proportional? Why?

2. Do you think that excise taxes on such consumer products as automobile tires, jewelry, cosmetics, and travel would be regressive, progressive, or proportional? Why?

3. Do you think that high excise taxes on items such as tobacco or alcohol should be used to discourage people from consuming those items?

Activity 3

Read the passage below and answer the following questions.

The FICA tax is levied on employers, employees, and certain self-employed individuals. Revenue goes to Social Security and Medicare. In 2012, the employee's contribution to the retirement part of the FICA tax was 4.2 percent of the first \$110,100 earned in wages and salaries. (Medicare is withheld on all wages and tips.) People with income from interest and dividend payments do not have to pay any Social Security tax on this income.

1. Over the wage and salary income range of \$0 to \$110,100, was the Social Security tax regressive, progressive, or proportional? Why?

2. For employees who earned more than \$110,100, was the Social Security tax regressive, progressive, or proportional? Why?

3. For people with income from interest and dividend payments, is the Social Security tax regressive, progressive, or proportional? Why?

4. Some people worry that Social Security will not have enough funds to cover retirees in the future. Do you think the FICA tax rate or the taxable limit should be raised to cover any possible shortfalls? Explain your answer.
